



Office of Health Plan Administration

P.O. Box 720724

Sacramento, CA 94229-0724

Telecommunications Device for the Deaf, TTY 1 (800) 795-2929; (916) 795-3240

(916) 795-0041; FAX (916) 795-1513

Toll Free: **888 CalPERS** or **888-225-7377**

February 20, 2008

AGENDA ITEM 4a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Update on Implementation Approach for Health Benefits Single Administrator

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Information Only

IV. INTRODUCTION:

As part of the five year plan, in September 2007, the Health Benefits Branch launched an assessment of the feasibility of adopting a Single Third-Party Administrator (STPA) approach for the CalPERS Health Benefits Program. The key duties of an STPA may include developing, contracting and/or managing a variety of provider networks and providing claims administration. It could also include operating or managing health, disease and medical management programs and/or prescription drug services.

Potential benefits of an STPA approach for CalPERS may include a single risk pool for pricing/rating purposes, a single source of consistent data cross all plan options, greater flexibility in design of provider network structures, improved transparency of health costs, enhanced ability to influence the health care market, and the potential to better moderate premium costs in the long-term.

V. BACKGROUND:

In October 2007, the Health Benefits Branch (HBB) issued a Request for Information (RFI) for health delivery models under an STPA. CalPERS sent the RFI to a total of 18 organizations including all of the current CalPERS health plans, various other health plans and third-party administrators. The focus of the RFI was to solicit ideas on alternative approaches and models for structuring an STPA arrangement and to determine high-level capabilities and interest from potential bidders in the marketplace.

In November, staff received RFI responses from 10 organizations: ACS/Buck, Aetna, Anthem Blue Cross, Blue Shield, CIGNA, George Michael & Associates, HealthNet, Humana, Kaiser and United HealthCare. Staff conducted a review of each of the responses and also asked each of its pool consultants (Mercer, Buck and Milliman) to conduct independent reviews and provide feedback on the responses.

Staff then worked with Mercer to develop a final report analyzing each of the responses and compiling input from the other two consultant reports. Key findings in the Mercer report include:

- Of the 10 responses, 7 organizations offered viable approaches, fully-responsive to the questions asked in the RFI
- Most of the responses centered exclusively around proprietary products offered by the responding organizations
- While the respondents offered several creative and forward-thinking ideas, many key questions remained unanswered
- The manner in which each of CalPERS' current plan options would fit into the new structure was not clear
- Not surprisingly, responses related to potential financial gains from an STPA model were vague

CalPERS executives conducted interviews with each of the respondents to further explore the intent, scope, and commitment level of each of the respondents before determining appropriate next steps for this initiative. Staff, with support from Mercer, conducted the executive interviews in late January 2008. During the interviews, respondents addressed an additional set of questions targeted at some of the key open issues arising out of the RFI process.

The interviews clearly validated that several of the respondents represent viable candidates to partner with CalPERS on the STPA model. They also demonstrated that the STPA model:

- Could be an effective vehicle for moving to more of a CalPERS-branded and directed program
- Holds the potential for CalPERS to dramatically alter the current dynamics in the California health care market
- Presents an opportunity to establish a consistent member experience across all plan options
- Could allow CalPERS to more easily develop and deliver common programs and initiatives (such as Health & Disease Management) across all plans
- Will require a multi-year process to fully-implement successfully.

Staff will continue efforts to further refine the concept and its potential value to the CalPERS program in the coming months, to properly position this initiative in

the context of other key upcoming decisions and to effectively focus a future RFP on the key attributes needed for long-term success.

VI. STRATEGIC PLAN:

This request relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This is an information item only.

Marcine Elvin Crane, Jr., Chief
Office of Health Plan Administration

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch